

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NOLIN RURAL ELECTRIC)	
COOPERATIVE CORPORATION CONCERNING)	CASE NO. 94-402
EXISTING RATES)	

O R D E R

On December 7, 1994, Nolin Rural Electric Cooperative Corporation ("Nolin RECC") applied for authority to retain revenues resulting from a reduction in its wholesale power costs and for release from its obligation to rotate capital credits to its members for all total margins in excess of a 1.5 Times Interest Earnings Ratio ("TIER").¹

Nolin RECC is a consumer-owned rural electric cooperative organized pursuant to KRS Chapter 279 and engaged in the distribution and sale of electric energy to approximately 22,766 customers in Breckinridge, Grayson, Green, Hardin, Hart, LaRue, Meade and Taylor counties.

On November 21, 1994, Nolin RECC's wholesale power supplier, East Kentucky Power Cooperative ("EKPC"), applied to the Commission for authority to adjust its basic rates to its member distribution cooperatives to reduce its annual revenues by approximately \$28 million. The Commission subsequently ordered EKPC to adjust its

¹ See Case No. 90-064, The Notice of Nolin Rural Electric Cooperative Corporation's Revision to its Electric Tariffs (Oct. 31, 1990).

rates to reduce its annual revenues by \$33,493,930.² As a result of these actions, Nolin RECC's purchased power costs will be reduced by approximately \$2.3 million.

The Attorney General intervened in this proceeding, but subsequently withdrew. A hearing was scheduled in this matter for August 18, 1995. Negotiations between Commission Staff and Nolin RECC were conducted prior to the scheduled hearing. As a result of these negotiations, a Settlement Agreement was executed and submitted to the Commission for its approval.

Under the terms of this agreement, Nolin RECC will retain the full amount of the reduction in EKPC's wholesale rates. Its rates for retail service will be unaffected. Nolin RECC has agreed not to apply for any general rate adjustment for a period of one year and to continue to use all total margins in excess of a 1.5 TIER to rotate capital credits to its patrons. Nolin RECC has further agreed to contain its operating costs and to report to the Commission annually on its capital credit retirement efforts.

After careful review of the Settlement Agreement, the Commission finds that the Settlement Agreement's terms are reasonable. The Commission further finds that the Settlement Agreement is in the public interest and should be accepted.

IT IS THEREFORE ORDERED that:

1. The Settlement Agreement, appended hereto, is incorporated in this Order as if fully set forth herein.

² Case No. 94-336, Application of East Kentucky Power Cooperative, Inc. to Adjust Electric Rates (July 25, 1995).

2. The terms and conditions set forth in the Settlement Agreement are adopted and approved.

3. Nolin RECC shall file new tariffs reflecting the provisions of this Order within 30 days of the date of this Order.

Done at Frankfort, Kentucky, this 7th day of August, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-402 DATED AUGUST 7, 1995.
COMMONWEALTH OF KENTUCKY

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RECEIVED

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PUBLIC SERVICE
COMMISSION

APPLICATION OF NOLIN RURAL ELECTRIC
COOPERATIVE CORPORATION CONCERNING
EXISTING RATES

)
) CASE NO. 94-402
)

SETTLEMENT AGREEMENT

THIS AGREEMENT is made and entered this 6th day of July, 1995,
by and between the STAFF OF THE PUBLIC SERVICE COMMISSION OF
KENTUCKY ("Commission Staff") and NOLIN RURAL ELECTRIC COOPERATIVE
CORPORATION, INC. ("Nolin RECC").

W I T N E S S E T H :

THAT, WHEREAS, on November 21, 1994, East Kentucky Power
Cooperative ("EKPC") applied to the Public Service Commission in
Case No. 94-336 for authority to adjust its basic rates to its
member distribution cooperatives to reduce its annual revenues by
approximately \$28 million;

WHEREAS, Nolin RECC is a member cooperative of EKPC;

WHEREAS, EKPC's action would reduce Nolin RECC's purchase
power costs approximately \$1,934,091;

WHEREAS, EKPC subsequently agreed to additional adjustments
to its test period operations which will reduce its basic rates
by a total of \$33.2 million;

WHEREAS, Nolin RECC's purchase power costs would be reduced
by approximately \$2,299,544 as a result of EKPC's amended
application;

WHEREAS, on December 7, 1994, Nolin RECC applied to the Public Service Commission for authority to retain in full EKPC's reduction in wholesale power rates and for release from its obligation under the Public Service Commission's Order of October 31, 1990 in Case No. 90-064 to rotate capital credits to its members for all total margins in excess of a 1.5 Times Interest Earnings Ratio ("TIER");

WHEREAS, the Attorney General intervened in this proceeding, but subsequently withdrew from it;

WHEREAS, no other person has intervened as a party to this proceeding; and

WHEREAS, Nolin RECC and Commission Staff have discussed Nolin RECC's application and reached agreement on all outstanding issues raised by it.

NOW, THEREFORE, be it resolved that:

1. Nolin RECC and Commission Staff mutually agree that all outstanding issues raised in this proceeding shall be resolved by this Settlement Agreement.

2. Upon written acceptance of this Settlement Agreement by the Public Service Commission, Nolin RECC shall be authorized to retain all of EKPC's proposed reduction in purchase power costs, or approximately \$2,299,544.

3. Should the Public Service Commission order reductions in EKPC's rates which are greater than those to which EKPC has proposed (including those to which it agreed in its brief in Case No. 94-336), Nolin RECC shall reduce its current rates to reflect

the difference between the reduction which the Public Service Commission ordered and that which EKPC has agreed. If the reduction which the Public Service Commission orders does not exceed 107 percent of EKPC's proposed reduction, however, then Nolin RECC shall not be required to reduce its rates.

4. Within 20 days of the Public Service Commission's final Order in Case No. 94-336, Nolin RECC shall file tariff sheets reflecting any rate adjustment which Paragraph 3 of this Settlement Agreement may require. Nolin RECC shall submit with these tariff sheets all calculations and workpapers which were used to determine the new rates.

5. For as long as this Settlement Agreement is in effect and Nolin RECC's revenue requirements are determined hereunder, Nolin RECC agrees to use all total margins in excess of a 1.5 TIER to rotate capital credits to its patrons. For purposes of determining total margins, Generating and Transmission margins shall be excluded.

6. For purposes of determining Nolin RECC's earnings and margins, reference will be made to Nolin RECC's Annual Reports on file with the Public Service Commission with adjustments to eliminate any cost that is not normally allowed by the Public Service Commission for rate-making purposes. TIER shall be calculated by excluding Generating and Transmission Capital Credits. Depreciation expense shall be calculated using the depreciation rates which Nolin RECC proposed in its application, exclusive of the component of those rates which is intended to

recover the depreciation reserve deficiency which Nolin RECC's most recent depreciation study reported.

7. When required by this Settlement Agreement to rotate its capital credits, Nolin RECC shall make payment of these capital credits to its patrons within 120 days of the close of the calendar year in which its total margins exceeded a 1.5 TIER unless relief is sought pursuant to the provision of paragraph 14 of this Settlement Agreement within 60 days of the close of the calendar year.

8. In addition to any other reports required by this Settlement Agreement, Nolin RECC shall, no later than April 30 of each year, submit a written report to the Public Service Commission on the status of its patronage capital credit rotation.

9. For as long as this Settlement Agreement is in effect and Nolin RECC's revenue requirements are determined hereunder, Nolin RECC acknowledges that it will be subject to financial monitoring by Commission Staff. To facilitate that monitoring, Nolin RECC agrees to provide, upon reasonable notice, any financial statements necessary to assure Commission Staff that refunds of Capital Credits are being administered in good faith in accordance with this Settlement Agreement.

10. Nolin shall not make application to the Public Service Commission for a general adjustment of its rates for a period of one year from the day on which the Public Service Commission approves this Settlement Agreement.

11. Nolin RECC shall withdraw its pending application for rate adjustment which has been docketed as Case No. 95-089.

12. In its next application for a general adjustment of rates, Nolin RECC shall submit with its application a new depreciation study. Nolin RECC shall retain additional data at plant account level on its utility plant for use in that study.

13. Nolin RECC recognizes and acknowledges its obligation to operate its system at the lowest possible cost consistent with the furnishing of adequate, efficient, and reasonable electric service. Nolin RECC agrees to take all reasonable steps necessary to comply with this obligation.

14. Nolin RECC may apply to the Public Service Commission for relief from its aforementioned obligations to retire capital credits when, due to circumstances beyond Nolin RECC's control, the Rural Electrification Administration or the National Rural Utilities Cooperative Finance Corporation has suspended or discontinued advancing loan funds to Nolin RECC.

15. Nolin RECC will proceed with all diligent speed to obtain all requisite approvals from its creditors and other persons necessary to implement the provisions of this Settlement Agreement.

16. This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

17. If the Public Service Commission fails to accept and approve this Settlement Agreement in its entirety, this proceeding shall go forward and neither the terms of this

Settlement Agreement nor any matters raised during settlement negotiations shall be binding on either signatory.

18. If the Public Service Commission accepts and adopts this Settlement Agreement in its entirety and enters an order in this proceeding to that effect, Nolin RECC shall not apply for rehearing in this proceeding nor bring an action for review of that order.

19. Nothing contained in this Agreement shall prevent Nolin RECC from developing and presenting a new equity management plan to the Public Service Commission for its review and approval. The signatories recognize, however, that such plan will not affect the rates established by this Agreement and that any changes in Nolin RECC's rates required by such equity management plan can only be obtained through a general rate adjustment proceeding.

20. Until Nolin RECC presents a new equity management plan to the Public Service Commission for its review and approval, Nolin RECC shall continue to follow the terms of the equity management plan which it enacted to comply with the terms of the October 11, 1990 Settlement Agreement in Case No. 90-064.

21. Upon its approval by the Public Service Commission, this Settlement Agreement shall supercede and replace the October 11, 1990 Settlement Agreement in Case No. 90-064.

22. Nothing contained in this Settlement Agreement relieves Nolin RECC of any obligations under the October 11, 1990 Settlement Agreement which arise before the approval of this

Settlement Agreement by the Public Service Commission.

23. Nothing contained in this agreement shall be construed as endorsing Nolin RECC's application in Case No. 94-357 or resolving any issues related to that proceeding. This agreement may not be presented as evidence in that proceeding.

AGREED TO BY:

NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION

BY: Michael L. Miller Date: 7-6-95

Title: GENERAL MANAGER

COMMISSION STAFF

BY: Donald E. W. [Signature] Date: 7-7-95

Title: Staff Attorney